



**Before the
Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051
held on February 18, 2022**

In the matter of Trading Member M/s Dealmoney Securities Private Limited

CORAM:

Ms. Mona Bhide	- Chairperson
Mr. K Narasimha Murthy	- Committee Member
Ms. Anuradha Rao	- Committee Member
Mr. Ranganayakulu Jagarlamudi	- Committee Member

PRESENT:

Ms. Priya Subbaraman	- Chief Regulatory Officer
Dr. Dinesh Kumar Soni	- Senior Vice President - Regulatory
Mr. Suresh Nair	- Vice President – Enforcement - Regulatory

BACKGROUND

1. **M/s Dealmoney Securities Private Limited ("Noticee")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") and Futures & Options ("**F&O**") segments since August 2006, and Currency Derivatives ("**CD**") segment since July 2009.
2. The Exchange conducted a regular inspection of the Noticee's books of accounts and records covering the period October 1, 2019, to September 30, 2020, from January 2021 to July 2021. Furthermore, the Exchange verified the data submitted by the Noticee under the Enhanced Supervision of Stockbrokers as of May 26, 2021, for availability and utilization of clients' funds. Post-inspection, the Exchange issued a show-cause notice dated October 1, 2021, for the observed non-compliance of the regulatory provisions ("**SCN**"). The Noticee, vide emails dated October 11, 2021, and October 20, 2021, replied to the SCN.



INSPECTION OBSERVATIONS/ALLEGED VIOLATIONS

3. The observations/alleged violations mentioned in the SCN are summarized hereunder:

3.1 Shortfall in net worth

The Noticee reported a net worth of Rs.5.98 crores as of September 30, 2020. Upon verification, the Exchange observed that the Noticee incorrectly deduct the non-allowable assets, viz. fixed assets and doubtful debts and advances while computing the net worth. After deducting the correct value of the non-allowable assets mentioned above, the net worth stands reduced from Rs.5.98 crores to (-ve) Rs.5.86 crores as of September 30, 2020.

3.2 Misuse of clients' funds

The available balances lying with the Bank/Clearing Member/Clearing Corporation were amounting to Rs.14.09 crores, whereas the clients' payables were amounting to Rs.15.21 crores, thereby resulting in a shortfall/misuse of clients' funds amounting to Rs.1.12 crores as of May 26, 2021.

3.3 Use of clients' bank account for purposes other than specified

The Noticee used the clients' bank account for purposes other than specified in 15 instances involving Rs.1.20 lakhs out of 63,786 instances selected for sample scrutiny (0.02% of the total sample instances verified).

3.4 Observations pertaining to settlement of clients' funds and securities

a. Non-settlement of clients' funds and securities

- i. Active Clients: 4 instances of 4 clients involving Rs.1.19 cores out of 124 instances of 74 clients selected for sample scrutiny (3.23% of the total sample instances verified).
- ii. Inactive Clients: 1,120 clients involving Rs.1.23 crores out of 3,522 clients selected for sample scrutiny (31.80% of the total sample instances verified).

b. Material discrepancies in the retention statement issued to clients



The Noticee issued retention statement with incorrect ledger balances to the clients at the time of settlement of clients' accounts in 12 instances of 12 clients out 100 instances of 50 clients selected for sample scrutiny (12% of the total sample instances verified).

c. Non-issuance of statement of accounts to clients

Based on the Noticee's inability to provide appropriate proof of dispatch of the statement of accounts to the clients, it is inferred that the Noticee did not issue the statement of accounts to the clients at the time of settlement of clients' accounts in 72 instances of 43 clients out of 100 instances of 50 clients selected for sample scrutiny (72% of the total sample instances verified).

3.5 Incorrect reporting of margin collected from clients

The Noticee incorrectly reported the margin collected from its clients as under:

- a. F&O segment: 11 instances of 11 clients involving Rs.0.37 crores out of 75 instances of 75 clients selected for sample scrutiny.
- b. CD segment: 2 instances of 2 clients involving Rs.19,366/- out of 75 instances of 75 clients selected for sample scrutiny

3.6 Non-reconciliation of securities

The Noticee did not reconcile the securities recorded in the register of securities vis-à-vis the securities available in the demat accounts in 27 instances involving Rs.55.24 lakhs as under:

- a. Securities available in the demat account but not recorded in the register of securities as of September 30, 2020 - 23 instances involving Rs.55.01 lakhs
- b. Securities recorded in the register of securities but not available in the demat account as of September 30, 2020 - 4 instances involving Rs.0.23 lakhs

3.7 Non-maintenance of daily reconciliation statement of funds transferred between proprietary and client bank accounts



The Noticee did not maintain the daily reconciliation statement of funds transferred in 96 out of 63,786 instances selected for sample scrutiny (0.15% of the total sample instances verified). The details are as under:

- a. Funds transferred from the client bank accounts to own bank account - 93 instances amounting to Rs.24 crores
- b. Funds transferred from own bank accounts to client bank accounts - 3 instances amounting to Rs.2.20 crores
- c. Net funds transferred from client bank account to own bank account - Rs.21.80 crores

3.8 Non-reconciliation of funds lying in the suspense account:

The Noticee did not reconcile the funds lying in the suspense account as of September 30, 2020. The details of irregularities are as under:

- a. Opening balance - Rs.94.70 lakhs
- b. Debit during the period - Rs.70.09 lakhs
- c. Credit during the period - Rs.49.14 lakhs
- d. Closing balance - Rs.73.75 lakhs

3.9 Contravening clauses incorporated in the clients' registration documents

The Noticee included the following contravening clauses in the account opening document which are in contravention of the rules, byelaws, regulations, notices, guidelines, and circulars issued by SEBI and Exchange:

- a. Running account authorization document contained the clause: "*I/We also request you to hold my shares in your de-mat beneficiary owner account unless I/We specially request you to transfer shares to my/our de-mat beneficiary owner account.*"
- b. Standard instruction document contains the clause that "*I hereby authorize you to pledge/deposit my securities whether deposited as collateral/margin or permitted by us to be retained in a separate account by you with exchange/clearing corporation/clearing house/NBFC/lender/bank for the purpose of raising funds, assignment of the contract or any other liability arising out of my dealing with you through you.*"



3.10 Observations pertaining to demat and bank accounts as per the Enhanced Supervision of Stockbrokers

- a. The Noticee reported 3 demat accounts to the Exchange but failed to provide the corresponding demat statement of the demat accounts to prove that the demat accounts belongs to the Noticee.
- b. The Noticee failed to tag 5 demat accounts.
- c. The Noticee failed to report closure of 2 demat accounts to the Exchange within one week of the closure.
- d. The Noticee failed to close 1 demat account tagged as client margin/collateral account by August 31, 2020.

3.11 Failure to maintain appropriate evidence of orders placed by clients

The Noticee did not maintain appropriate evidence of orders placed by its clients in the case of 13 out of 24 clients selected for sample scrutiny (54.16% of the total clients verified) on 17 trading dates.

3.12 Failure to open separate account for setting aside the funds and securities of inactive clients

The Noticee did not open separate a separate client bank account/client collateral demat account for setting aside the funds and securities of 1,120 inactive clients or clients who are untraceable.

3.13 Incorrect data reported in the weekly holding statement

The Noticee reported incorrect data in the weekly holding statement as of September 30, 2020, as under:

- a. Securities available in demat account but not reported in the weekly holding statement - 23 scrips involving Rs.55.01 lakhs
- b. Securities reported in the weekly holding statement but not available in the demat account - 4 scrips involving Rs.0.23 lakhs



3.14 Incorrect data submitted towards weekly monitoring of clients' funds

The Noticee submitted incorrect data towards weekly monitoring of clients' funds under the Enhanced Supervision of Stockbrokers as of September 25, 2020, in 8 areas viz. total of day end balance in all clients' bank accounts, collateral deposited with the Clearing Corporation in the form of cash and cash equivalents, collateral deposited with the Clearing Member in the form of cash and cash equivalents, credit balance of all clients, debit balance of all clients, margin utilized for positions of credit balance clients, free/unblocked collateral deposited with Clearing Corporation and free/unblocked collateral deposited with Clearing Member. The difference in reporting range between (-ve) Rs.3.46 crores to Rs.4.55 crores.

3.15 Incorrect data submitted towards monthly clients' funds and securities balances

The Noticee submitted incorrect data towards monthly clients' funds and securities balances as of September 30, 2020, as under:

- a. Mismatch in clients' securities between demat account and monthly submission
 - i. Securities available in the demat account but not reported in the monthly submissions - 13 scrips involving Rs.0.19 lakhs
 - ii. Securities reported in the monthly submission but not available in the demat account - 4 scrips involving Rs.0.12 lakhs
- b. Mismatch in clients' funds balances between trial balance and monthly submissions
 - i. Balance in monthly submission in excess of balance as per the trial balance - 11 clients involving Rs.2.13 lakhs
 - ii. Balance as per the trial balance in excess of balance in monthly submission - 12 clients involving Rs.18,729/-
- c. Clients who traded in the past 12 months but not reported in the monthly submissions - 8 clients



PREVIOUS MCSGFC PROCEEDINGS

4. The Exchange placed the matter before the Committee on the following dates:

4.1 October 13, 2021

- a. The Exchange granted the Noticee an opportunity of personal hearing before the Committee on October 13, 2021.
- b. Mr Michel D'souza – Designated Director, Mr Pandoo Naig – Director, and Mr Akshay Narkar – Authorised Representative, on behalf of the Noticee, appeared for the personal hearing and made the following oral submissions before the Committee:
 - i. Shortfall in net worth: There is no shortfall in net worth as the advances given to branches for business expansion were good and not exceeding 90 days; hence not required to be deducted under the non-allowable assets as per Dr. L.C. Gupta net worth computation method.
 - ii. Misuse of clients' funds: The amount blocked towards IGRP/arbitration matters have been deposited with the Exchange and hence should be considered as funds available against client payables. Further, the IGRP/arbitration matters were not crystallized at that point in time.
 - iii. Non-maintenance of appropriate evidence of order placed by the clients: The issue was with respect to a specific branch, i.e. Kandivali Branch. The Noticee initiated action against the branch employees and started inspecting every branch on regular interval to avoid such non-compliance.
- c. The Committee noted that the Noticee denied the observations, viz. shortfall in net worth, misuse of clients' funds and non-maintenance of appropriate evidence of order placed by clients, and desires to file an additional reply to the SCN.
- d. Therefore, without going into the merits of the Noticee's submissions, the Committee, in the interim, directed the Noticee to submit additional reply, if any, to the SCN within 7 days from the date of the direction, i.e. by October 20, 2021.



- e. The Exchange, vide email dated October 13, 2021, communicated the direction mentioned above to the Noticee.

4.2 November 3, 2021

- a. The Exchange placed the matter before the Committee on November 3, 2021.
- b. The Committee noted that the Noticee did not submit complete details/ documents in support of its contention regarding recoupment of shortfall in net worth and shortfall of clients' funds. In the absence of documentary evidence, the Exchange could not verify the Noticee's contention.
- c. In view of the above, the Committee directed the Noticee to provide a complete set of documents to verify the recoupment of the shortfall in net worth, shortfall of clients' funds and settlement of clients' accounts. The Committee decided that the matter be placed for decision in its subsequent meeting.
- d. The Exchange, vide email dated November 9, 2021, communicated the direction mentioned above to the Noticee. The Noticee, vide emails dated November 12, 2021, and November 15, 2021, provided certain documents to the Exchange.
- e. The Exchange, vide emails dated December 1, 2021, December 2, 2021, December 3, 2021, December 6, 2021, December 7, 2021, December 10, 2021, December 15, 2021, and January 11, 2022, requested additional documents and clarification from the Noticee. The Noticee, vide emails dated December 2, 2021, December 3, 2021, December 6, 2021, December 8, 2021, December 13, 2021, December 18, 2021, and January 12, 2022, provided the additional documents and clarifications to the Exchange.

CONSIDERATION & FINDINGS

5. The consideration and findings of the Committee are as under:

- 5.1 The Noticee is charged with several violations such as misuse of clients' funds, shortfall in net worth, use of client bank accounts for purposes other than specified, non-settlement of clients' funds and securities, non-reconciliation of securities, non-maintenance of daily reconciliation statement for fund transfers between proprietary and client bank accounts,



contravening clauses incorporated in client registration documents, incorrect reporting etc.

- 5.2 The Noticee recouped the shortfall of clients' funds as of November 12, 2021. The value of "G" (availability of clients' funds) was Rs.53.74 lakhs.
- 5.3 The Noticee did not recoup the shortfall in net worth as of September 30, 2021. As per the net worth certificate submitted by the Noticee, the Noticee's net worth was Rs.15.63 crores as of September 30, 2021, whereas as per the Exchange's calculation based on documents submitted by the Noticee, the Noticee's net worth was (-ve) Rs.11.70 crores as of September 30, 2021. The difference was due to disallowance of unrealized income of third-party product amounting to Rs.27.33 crores from the free reserves. The Exchange, vide email dated February 11, 2022, informed the Noticee about the shortfall in net worth.
- 5.4 The Noticee, as a Trading cum Self-Clearing Member in the CM segment and a Trading Member in the F&O and CD segments, is required to maintain a minimum net worth of Rs.1 crore. However, the Noticee' net worth was (-ve) Rs.5.86 crores as of September 30, 2020, and (-ve) Rs.11.70 crores as of September 30, 2021. As per Rule 33 of Chapter III of the Rules of the Exchange, one of the conditions and requirements for continued admittance to trading membership is maintaining a minimum net worth. The trading membership of any person who fails to meet this condition and requirement shall be liable to be terminated. Rule 33 of Chapter III of NSEIL Rules is reproduced below:

Continued Admittance

(33) The relevant authority shall from time to time prescribe conditions and requirements for continued admittance to trading membership which may, inter alia, include maintenance of minimum net worth and capital adequacy, renewal of certification, if any, etc. The trading membership of any person who fails to meet these requirements shall be liable to be terminated.

- 5.5 Given the shortfall in net worth, the Committee decided to pass an interim order without going into the merits of other observations/alleged violations mentioned in the SCN which shall be dealt with subsequently by a separate order.



DECISION

6. Accordingly, the Committee issues the following interim directions:
 - a. The Noticee is prohibited from registering new clients with immediate effect until further direction.
 - b. The Noticee shall recoup the shortfall in net worth within 30 days from the date of the order and submit documentary evidence thereof to the satisfaction of the Exchange, failing which the Noticee's trading terminals shall be disabled in all segments.
7. The matter was discussed in the Committee meeting held on February 18, 2022, through video conferencing. At this stage, it is not possible to sign a copy of this order, nor a certified copy of the order can be issued by Exchange. Therefore, an electronic copy of this order sent from the Exchange's mail id shall be treated as a signed copy for all purposes.

Sd/-
Mona Bhide
(Chairperson)

Sd/-
Anuradha Rao
(Committee Member)

Sd/-
K Narasimha Murthy
(Committee Member)

Sd/-
Ranganayakulu Jagarlamudi
(Committee Member)

Date: March 21, 2022